

## UNDERSTANDING THE DRIVERS OF CUSTOMER INTEREST IN ISLAMIC BANKS IN BALI: CHALLENGES AND STRATEGIC SOLUTIONS

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### Abstract

*This study investigates the factors influencing customer interest in Islamic banks in Bali, focusing on Kampung Singaraja, a region with significant cultural and religious diversity. Employing a quantitative survey method, data were collected from 40 Muslim respondents using structured questionnaires to assess their perceptions, understanding, and preferences toward Islamic banking. The findings reveal several barriers to customer interest, including limited awareness of Islamic banking principles, insufficient access to branches, and perceived product limitations. Notably, a gap exists between basic awareness of riba-free banking and a comprehensive understanding of Islamic financial products such as mudharabah and financing solutions. The study highlights the role of marketing strategies emphasizing educational campaigns, enhanced promotional materials, and improved accessibility to attract potential customers. The theoretical implications lie in enriching the literature on Islamic banking by identifying specific customer behaviors and preferences within Bali's unique social and cultural context. Practically, this research provides actionable insights for Islamic banks to develop targeted marketing strategies and foster greater financial inclusion. Novel in its focus, the study offers a perspective on Islamic banking within a culturally diverse setting, presenting fresh insights into bridging the gap between potential and realized customer interest.*

**Keywords :** Islamic Banking, Customer Interest, Financial Literacy, Marketing Strategy, Bali

### Introduction

In the era of globalization and rapid development of the financial industry, the Islamic banking system has received significant attention from the public, especially in countries with large Muslim populations, including Indonesia. Banking plays a very important role in financial activities. economy because banking has many functions and tasks that are very important important in supporting economic growth and development. Banking also plays an important role in financing investment and help drive economic growth through financing projects business . Banking also plays a role. important role in guard stability financial system and maintain trust public to financial system (Abidin, 2023) . The concept of Islamic banking is based on the principles of Islamic law that prioritize justice, transparency, and prohibitions against usury and detrimental practices. Islamic banking in Indonesia has great potential, considering the Muslim population of more than 237 million, but its market share is still relatively low. Islamic financial literacy in Indonesia is still lagging behind conventional finance. Islamic financial literacy has only reached 8.9% while conventional financial literacy has reached 37.7%. Islamic financial literacy of the millennial and generation Z generations is still relatively low, while more than 50 percent of the Indonesian population is millennial and Gen Z. This is a challenge for Islamic banking to compete with conventional banks which are better known and have a larger market share. (Nursjanti et al., 2023)

In Bali, despite the significant Muslim population, public interest in becoming Islamic bank customers is still low. Based on the results of comparative calculations of Islamic bank assets in Bali, it has not been significant from assets in 2018 to 2019, assets grew by 0.34 percent and the comparison of assets in 2019 to 2020 decreased by 0.14 percent (Yuliani et al., 2022) . Research shows that many factors influence people's decisions to choose conventional banks over Islamic banks. One of the main factors is the lack of knowledge and understanding of the products and services offered by Islamic banks .

Many people assume that Islamic banks only offer certain products, such as savings for the Hajj pilgrimage, without realizing the diversity of other products. In the economic context, the existence of Islamic banks in Bali is expected to provide alternative funding for micro, small and medium enterprises (MSMEs) that are developing in this region. Socially, Islamic banks have the potential to increase community welfare through various community-based social programs. However, low customer interest is an obstacle to realizing this potential.

The phenomenon that occurred in Bali related to customer interest in Islamic banks shows dissatisfaction and distrust from the community, especially among Muslims.

Some factors that influence this phenomenon include:

1. Lack of Socialization and Promotion: Islamic banks tend to be less active in promoting and socializing to the community. This causes the community to not know the benefits and advantages of Islamic banking products.
2. Negative Perception: There is a negative perception among the public regarding Islamic banks, often caused by a lack of understanding of the basic principles of Islamic banking and the fundamental differences with conventional banks.
3. Limited Access: The limited number of Islamic bank branches compared to conventional banks is also a barrier for people to access Islamic banking services.
4. Tendency towards Conventional Banks: Islamic banks in Bali often do not do enough promotions to attract customers, so people are more familiar with conventional banks because they are more familiar.
5. Lack of understanding of Islamic banking products: Many people do not yet understand the difference between Islamic banks and conventional banks, as well as the benefits offered by Islamic banks.

There is a gap between market potential and the reality of customer interest. Although there has been an increase in the number of customers in Islamic banks as a whole, the number is still far compared to conventional banks. Data shows that in 2020, the number of conventional bank accounts reached 76,122,714, while Islamic bank customers are still much smaller. This creates a challenge for Islamic banks to increase their market share in Bali.

Based on the existing phenomena, the formulation of the problem in this study can be formulated as follows:

1. What are the factors that influence the low interest of people in Bali to save in Islamic banks?
2. How does the public understand the products and services offered by Islamic banks?
3. What is an effective marketing strategy to increase public interest in Islamic banking?

Furthermore, based on the formulation of the problem, the objectives of this study are as follows:

1. Identifying factors that influence the low interest of people in Bali to save in Islamic banks.
2. Identifying public understanding of products and services offered by Islamic banks.
3. Identifying effective marketing strategies to increase public interest in Islamic banking.

The theoretical implications of this study relate to enriching the study of Islamic banking in the context of Indonesia, especially in Bali, namely it will enrich the literature on Islamic banking theory by identifying specific factors that influence customer interest so that it can encourage further research related to product innovation, services, and marketing strategies in Islamic banking. In addition, this study also has practical implications that are very relevant for Islamic banks and stakeholders, namely understanding the factors that influence customer interest, Islamic banks in Bali can formulate more targeted marketing strategies. For example, an educational campaign that not only explains bank products, but also explains Islamic values and their benefits for the general public.

In accordance with the objectives of the study and theoretical implications as well as practical implications, the novelty of this study is that this study was conducted in the context of Bali, which has unique social, cultural, and economic characteristics compared to other regions in Indonesia. Thus, the results of this study provide a new perspective that has not been widely explored in the literature on Islamic banks.

### Theoretical Study

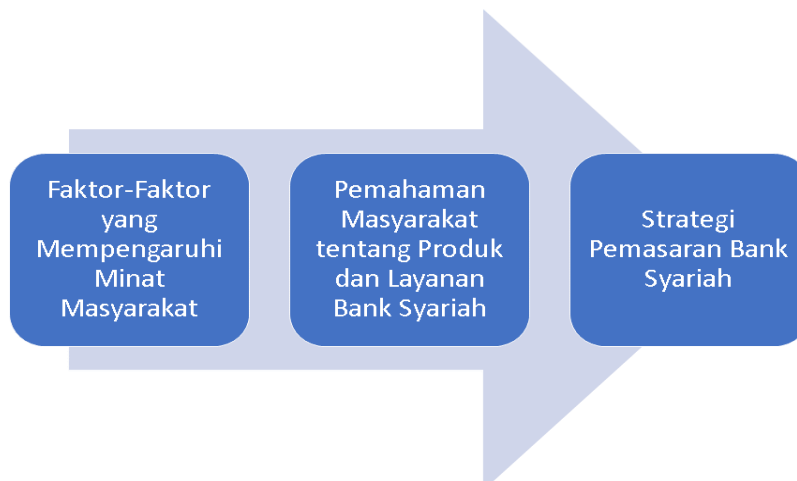
The theory used in this study is the tawhid string relation (TSR) theory which is rooted in the concept of tawhid in Islam which emphasizes the integration of spirituality and social responsibility in every aspect of human life. In the context of Islamic banking, TSR encourages financial institutions to operate not only profit-oriented, but also to support social welfare and fulfill sharia values (Nugroho et al., 2022; Nugroho & Mariyanti, 2021). According to the TSR theory, all activities in Islamic banking must be in line with the basic principles of Islam which refer to the Qur'an and Hadith as the main guide. This includes maintaining a balance between financial, social, and spiritual dimensions (Authors, 1981; Choudhury, 2018). explains that TSR involves the integration of knowledge, active implementation, and the creation of welfare (*maslahah*) in the operations of Islamic financial institutions (Nugroho et al., 2020, 2022). The TSR approach explains that every activity of Islamic banks must provide real benefits to the community, not only in terms of economy but also to support social welfare. (NUGROHO et al., 2022). By implementing TSR, Islamic banks are expected to attract the interest of the wider community because the services offered do not only focus on financial gain, but also pay attention to social welfare as a form of worship to Allah SWT. (Nugroho et al., 2022; NUGROHO et al., 2022).

*Sharia Enterprise Theory* (SET) is a theory based on Islamic sharia principles that include social responsibility, justice, and accountability to all stakeholders, including God, humans, and nature. This theory aims to ensure that economic entities operate on the basis of Islamic morals and values, and pay attention to the interests of the wider community. (Nugroho, 2014; Nugroho et al., 2022). SET emphasizes the importance of running a business that is not only profit-oriented but also considers social and spiritual aspects. In the context of Islamic banking, SET requires banks to function as agents that not only focus on increasing profits but also create social welfare and make positive contributions to society. This is realized through three main components in SET theory: God as the ultimate owner, humans as users and direct stakeholders, and the environment as part of indirect stakeholders. According to (Meutia, 2010), one important aspect in the implementation of SET is the disclosure of social responsibility as a form of accountability to God and humans, where the main goal is to obtain legitimacy from God as the ultimate goal (Nugroho, 2014) so that Islamic banks must consistently carry out their operations by complying with Islamic principles that support social balance and avoid practices that are detrimental to society. Therefore, the implementation of SET in Islamic banking has the potential to provide various practical benefits for banks in an effort to increase customer interest.

This research was conducted in Bali Province, Buleleng Regency, Buleleng District, Kampung Singaraja Village. The research location was chosen because Kampung Singaraja Village is known as an area with a long history of cross-cultural interaction between Muslim and Hindu communities. The Muslim community in Kampung Singaraja is mostly descended from the Laskar Islam Blambangan who were brought in during the Buleleng kingdom. With a majority Muslim population in an environment dominated by Hindu customs and traditions, cross-cultural and inter-religious interactions in this area have given birth to social harmony practices, such as the "*menyama braya*" tradition which emphasizes brotherhood between religious communities (Komang Dyah Setuti Sebuah, 2022). This makes Kampung Singaraja a unique location to understand how interest in Islamic banking services is formed in a community rich in diversity. Based on the demographics and religious background of the people of Kampung Singaraja, this area is relevant for a study of interest in Islamic banking products. As a Muslim-majority community in Bali, the community's response and attitude towards Islamic banking services can provide insight into their understanding and interest in the concept of banking that is in line with Islamic principles. Observations at this location will help identify factors that influence community preferences in choosing banking services, both Islamic and conventional, as well as understanding the extent to which Islamic banks are accepted by the local community.

Furthermore, the public interest in becoming customers of Islamic banks in Indonesia, especially in areas dominated by diverse cultures and beliefs, such as in Bali, can be seen from several aspects related to the characteristics of Islamic banks and the factors that influence people's decisions in choosing this banking service. Public interest is a concept that refers to the interest or desire of individuals to use certain products or services based on their understanding, perceptions, and experiences. Public interest in Islamic banks can be defined as the encouragement or tendency of individuals or groups to use products and services provided by Islamic banks. This encouragement arises from an understanding of the benefits, principles, and differences of Islamic bank products compared to conventional banks. People with a better understanding of Islamic principles, such as the prohibition of usury (interest) and the principle of profit sharing, tend to show a higher interest in becoming customers of Islamic banks. In Indonesia, the development of Islamic banks began with the emergence of the need for financial institutions that are in accordance with Islamic principles, especially to meet the needs of Muslims who do not want to be involved in usury transactions. Therefore, understanding the concept of Islamic finance is one of the important factors influencing public interest. (Estlundt et al., 1988; Karema et al., 2016)

Based on the review of TSR and SET theories, this study formulates a conceptual framework to understand public interest in Islamic banks in Bali. This framework describes the relationship between factors that influence public interest, their understanding of Islamic bank products and services, and the effectiveness of Islamic bank marketing strategies which can be illustrated as follows:



Source: From various sources that have been processed by the author.

Figure 1. Research Conceptual Framework

In accordance with Figure 1 above, the conceptual framework in this study can be described as follows:

1. Factors Affecting Public Interest: These factors include the level of Islamic financial literacy, public perception of Islamic banks, accessibility of services, and promotions and socialization carried out by Islamic banks. These factors influence how the public views Islamic banks and their products.
2. Public Understanding of Islamic Bank Products and Services: This understanding is important in determining public interest in becoming customers. A better understanding of the principle of profit sharing, the prohibition of usury, and the advantages of Islamic products can increase the attractiveness of Islamic banks in the eyes of the public.
3. Marketing Strategy of Islamic Banks: Effective marketing can help Islamic banks reach the community with an educational approach that emphasizes the superiority of products and Islamic principles carried by Islamic banks. By considering the characteristics of the community in Bali, this marketing strategy is expected to increase public understanding and interest in Islamic banks. Indonesia.

### Research Methods

This study uses a quantitative method with a survey approach to measure and analyze the factors that influence public interest in Islamic banks in Singaraja Village, Buleleng Regency, Bali. This study involved 40 respondents selected from the Muslim community in Singaraja Village. Data were collected using a structured questionnaire to obtain relevant information related to public interest, understanding, and perception of Islamic banks. As for stage from study This is as following :

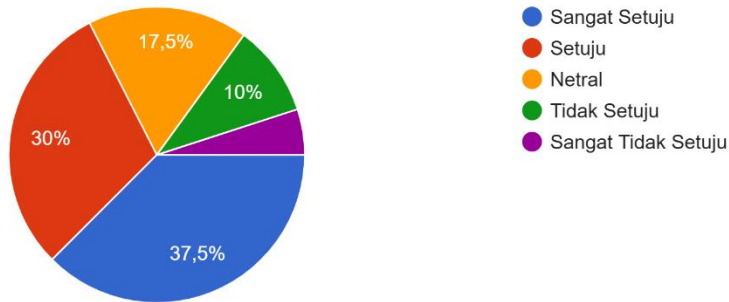
1. Determine Objective Research : Objectives from study This is ( i ) Identifying factors that influence low interest people in Bali to save in Islamic banks , (ii) Identifying understanding public about products and services offered by Islamic banks , (iii) Identifying strategy effective marketing to increase interest public towards Islamic banks .
2. Population and Sample : Population : Muslim community living in Kampung Singaraja Subdistrict , Kecamatan Buleleng , Regency Buleleng , Bali. Meanwhile amount sample A total of 40 respondents were selected by purposive sampling with Criteria : ( i ) Domiciled in Singaraja Village, (ii) Aged 18 years to on .
3. Compile Questionnaire consisting of : Questionnaire using the Likert Scale: 1 ( very much do not understand ) to 5 ( very much understand ) which is based on on three aspect main , namely ( i ) Interest towards Islamic banks ., (ii) Understanding about Islamic banking products , (iii) Perception to strategy Islamic bank marketing .
4. Survey Process : Questionnaire spread out in a way direct to respondents who meet the requirements criteria during period specific to the location study .
5. Data Analysis : Using statistics descriptive to find out distribution frequency and average score from answer respondents

## Results and Discussion

### Factors Influencing the Low Interest of Balinese People in Saving at Islamic Banks

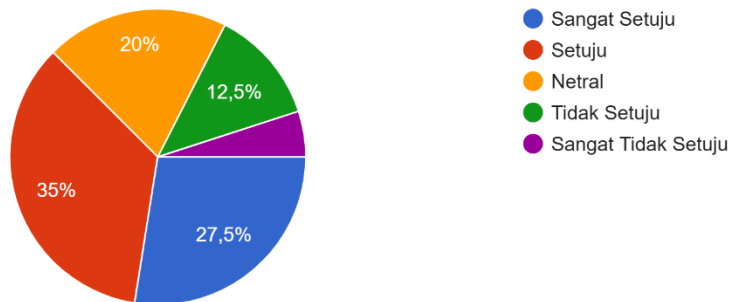
The survey did not directly identify factors influencing the low interest in Islamic banking, but hinted at some potential causes through responses to different questions. The relatively low percentage of respondents who were very interested in opening an account with an Islamic bank (30 %) and those who believed that Islamic banks could meet their financial needs (40 %) indicated some barriers, including :

Saya merasa tertarik untuk membuka rekening di bank syariah  
 40 jawaban



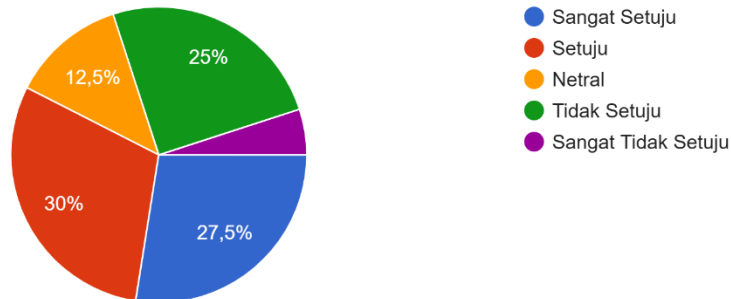
**Lack of Awareness/Understanding:** The relatively low percentages who expressed a strong understanding of Islamic banking concepts (e.g., “I understand the concept of profit sharing (mudharabah)” only 2.5 % “Strongly Agree”) indicate a lack of understanding among the public. This suggests that better education campaigns could help increase interest. Many respondents were also unaware of the difference between conventional and Islamic savings accounts (27.5 % “Strongly Agree”).

Saya mengetahui perbedaan antara tabungan syariah dan tabungan konvensional  
 40 jawaban



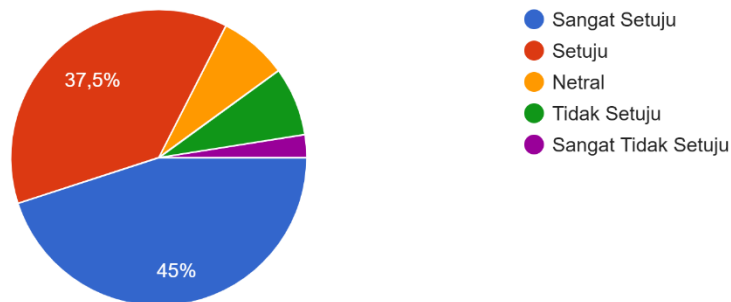
**Accessibility Concerns:** The low percentage of people who are aware that Islamic banks have easily accessible branches (27.5 % “Strongly Agree”) indicates potential limitations in branch network coverage. Accessibility and convenient location are key considerations for banking.

Saya mengetahui bank syariah memiliki lokasi cabang yang mudah diakses di daerah saya.  
40 jawaban



Limited Products: The fact that most respondents were not aware that Islamic banks offer products tailored to specific needs (e.g., Hajj and Umrah) (4 5 % “Strongly Agree”) suggests that the range of products offered by Islamic banks in Bali may not be adequately communicated.

Saya paham bahwa bank syariah menawarkan produk untuk kebutuhan khusus, seperti haji dan umrah.  
40 jawaban



### Public Understanding of Products and Services Offered by Islamic Banks

Survey disclose diverse understanding of products and services banking Sharia includes :

1. Awareness of Transactions Free Usury : Relative percentage high (46.3%) very agree that they understand that Islamic banks do not charge interest ( riba ), shows level awareness base .
2. Understanding Limited about Products Specific : Understanding of products and services certain Still limited . For example , a very small percentage agree with understanding mudharabah only 29.3%, and understanding of various product financing only 39% " Very Agree " .
3. Narrowness Knowledge : In general Overall , the results show that there is significant gap between awareness basics of principles banking sharia ( transactions) free usury ) and a comprehensive understanding of the specific products and services offered by Islamic banks .

### Effective Marketing Strategies to Increase Public Interest in Islamic Banks

Survey give hints on strategy effective marketing :

1. Focus on Education and Awareness : Results in consistent highlighting the need for a campaign better education and awareness . This should not only be state that Islamic banks free usury , but also communicate benefit from various products and services banking sharia clearly .
2. Upgrade Material Marketing : Relative percentage low from those who think Islamic bank promotion informative and interesting ( only 22% " Very Agree " for informative and interesting advertising ) shows that material Current marketing may not be effective enough . Consider focusing on attractive design . visually and with a clear and concise message .

3. Upgrade Accessibility and Network Branch : Relative percentage low from those who realize easy branch accessed shows the need to improve accessibility physical Islamic bank .
4. Strengthen Service Customers : Quite high level of satisfaction about friendliness and helpfulness Islamic bank employees (41.5% “ Very Agreed ”) must be maintained and improved .

### Conclusion and Suggestions

The survey suggests that a multifaceted approach is needed to increase interest in Islamic banking in Bali. This should involve targeted educational campaigns to raise awareness and understanding of Islamic banking principles and products, increase marketing and advertising of these products, and improve accessibility of bank branches. Further research with a larger sample size should be conducted to confirm these findings and gain a deeper understanding of the underlying issues.

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